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Mexico

Tree Nuts

Annual Report

2006

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Report Highlights:

Mexico is both a competitor and market for the United States in the pecan sector. As a leading world pecan producer, second only to the United States, Mexico's MY 2007/08 production is forecast at 75,840 MT. While the bulk of Mexico's exports go to the United States, exporters have just recently started shipping small quantities to Holland, Great Britain, France, Germany, and Israel. Although the Mexican market is supplied principally with pecans grown domestically, there are a growing number market opportunities for U.S. shelled pecans for snack foods or as an ingredient in the food processing industry.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
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Tree Nut Situation and Outlook: Mexico is both a competitor and market for the United States in the pecan sector. As a leading world pecan producer, second only to the United States, Mexico's MY 2007/08 production is forecast at 75,840 MT. While the bulk of Mexico's exports go to the United States, exporters have just recently started shipping small quantities to Holland, Great Britain, France, Germany, and Israel. Although the Mexican market is supplied principally with pecans grown domestically, there are a growing number market opportunities for U.S. shelled pecans for snack foods or as an ingredient in the food processing industry.

Production

Mexican pecan production for MY 2007/08 (October/September) is forecast to increase to around 75,840 MT, about 3 percent over the production figure for MY 2006/07. This increase is primarily due to new trees coming into production. Production was revised upward in MY 2006/07 because of water availability in Chihuahua, and the cold winter in Coahuila, which allowed for sufficient chilling hours for the trees. Production for MY 2005/06 was revised downward to reflect official data.

Production is expected to increase in the next three to five years, given normal growing conditions. Farmers have continued to plant new trees on a yearly basis because of the attractive prices associated with the U.S. export market. Since it takes around seven years for trees to start to produce, and 10 years for trees to be highly productive, many of these new trees are now coming into production. This trend of new plantings should continue for the foreseeable future if prices continue to be relatively attractive.

Although the pecan tree is native to Mexico, new tree varieties were only introduced into Mexico in the 1950s, at a time when farmers in the north were looking for an alternative to cotton. Today, Mexico is the second largest grower of pecans in the world, after the United States. High light intensity, deep, well-drained soil, and a sufficient supply of water make Northern Mexico an ideal area for pecan production. New plantings of pecan trees began to increase in the mid-eighties when Mexico began to export significant volumes to the United States. Exports increased because of the need for early harvested pecans in the United States to service the growing snack trade. Pecans are harvested in Mexico from October to December.

The main varieties of pecans in Mexico are the Western and Wichita varieties, which account for about 90 percent of production. The Western is the most important variety because it adapts well to a dry and hot climate, and can withstand primitive cultural practices. There are also native varieties whose yields and kernel percent are significantly lower than the improved varieties. Yields for the improved varieties in Chihuahua can be as high as 1.5 MT/hectare. Yields for native varieties tend to be around .50 MT/hectare. In general, the quality of Mexican pecans is considered to be exceptional by U.S. standards. The quality of pecans is based on percent kernel and color. The higher the percent kernel, or nutmeat yield, the higher the quality. Any pecan over 50 percent kernel is considered a high quality pecan. The improved varieties in Mexico average around 55 percent kernel. Also, lighter color means higher quality. The less humid the weather, the lighter the color. In Mexico the color is very light because of the dry conditions.

Pecan production in Mexico is mainly located in the northern part of the country that comprises the states of Chihuahua, Coahuila, Sonora, Durango and Nuevo Leon. In MY 2006/07, Mexico's pecan production area covered 71,922 hectares, producing 73,504 MT of pecans. The state of Chihuahua has 44,431 hectares planted, followed by the state of Coahuila, with 11,946 hectares. Sonora accounted for 5,376 hectares, Durango with 4,026 hectares, followed by Nuevo Leon and Hidalgo with 4,207 and 682 hectares respectively, and all other producing states with 1,254 hectares planted.

Production Policy

The price Mexican farmers receive for their pecans is a function of the U.S. market. If supply is tight in the U.S. market, prices will be high in the Mexican market. High percent kernel pecans are generally for export, and low percent kernel pecans are for the domestic market. The price the farmer receives from pecan shellers is based on their percent kernel and it is referred to as a point system. Improved varieties, such as the Western, which have around

55 percent kernel, receive a premium in price, while native varieties, which have around 40 percent kernel, receive a lower price. According to several farmers, domestic buyers generally buy at around 40 percent kernel and will not pay a premium in price for percent kernel over 53. Because of the high percent kernel, Mexican pecan prices for export quality pecans have tended to be higher than the average U.S. prices for new variety pecans.

The average price paid for Mexican high quality pecans with 52%-54% meat yield in MY 2005/06 was U.S. \$3.17/kg. to U.S. \$3.44/kg., in-shell basis.

Consumption

Because of the benefits derived from selling into the export market, such as high prices and payment on delivery, growers tend to focus their efforts on export sales. Foreign buyers also pay a premium for higher quality pecans, unlike domestic buyers. Mexican companies will import lower quality pecans from the United States if there is a need to meet domestic demand.

Domestic consumption is very price elastic. Consumption goes up when prices are low, and down when prices are high. In Mexico, pecans are predominately used for snacks or home cooking, or as ingredients in the pastry, bakery, and confectionary industries. Confectioneries, bakeries, and food processors are expected to remain the largest consumers of Mexican pecans. There is also a large informal industry of street vendors selling pecans in Mexico, both shelled and in-shell. Christmas is the most important consumption seasons for pecans.

Trade

Mexican pecan exports are forecasted to increase to 55,000 MT in MY 2007/08 because of the expected higher production in Mexico fueled by the new trees coming into bloom. We revised exports in MY 2006/07 upward to 53,999 MT because of the expected increase in production, which was driven by good weather, adequate water availability, and new trees coming into production. While the vast majority of Mexico's exports go to the United States, exporters have just recently started shipping small quantities to Holland, Great Britain, France, Germany, and Israel. Because Government of Mexico data groups all nuts together, precise figures on Mexican pecan exports to countries other than the United States are not available. Exports in MY 2005/06 were revised upward to reflect official data.

Mexican pecan imports are forecast at around 9,300 MT in MY 2007/08 due the expected increase in demand from the food processing industry to meet the greater demand, driven by a strong economy and a growing population. Imports are revised downward for MY 2006/07 to 9,251 MT to offset the higher volume of expected production, and thus allow the domestic demand to be satisfied with locally grown pecans. Low quality U.S. pecans are imported to fulfill domestic demand. Imports in MY 2005/06 were revised downward to reflect official data.

Stocks

In recent years there have generally been no stocks at the end of the marketing year because the price of pecans was high enough to clear the market. There are also not sufficient cold storage warehouses to store a significant amount of pecans.

There are a few shelling plants in Mexico that shell for the domestic and U.S. markets. There are also several small rudimentary shelling operations that shell for the domestic wholesale market. Because of the lack of cold storage facilities in Mexico, the market for pecans is

saturated at production time (October through December), and short of pecans later in the year. Retail distribution to bakeries, food processors, and retail outlets is left to the wholesale market in Mexico, which is also lacking in storage facilities.

Marketing

Mexican households generally purchase pecans from supermarket chains as a cooking ingredient more than as a snack product. Since the market for snack products has increased significantly over the past few years, developing the marketing of shelled pecans as snacks would certainly help increase sales of U.S. shelled pecans in the Mexican market.

Another marketing opportunity for U.S. pecans is shelled pecans, or pecan pieces used in bulk, for the Mexican food processing industry. For example, there is an increasing number of U.S. type cookies and pastries, such as brownies and muffins, sold on the Mexican market. U.S. pecans may be used as ingredients in these products, either in ready-made products or in cooking mixes to prepare at home.

U.S. tree nut exporters, new to the Mexican market, are encouraged to contact the following trade organizations for further market information.

THE U.S. AGRICULTURAL TRADE OFFICE
 BRUCE ZANIN, DIRECTOR
 JAIME BALMES NO. 8 - 2ND. FLOOR
 11510 MEXICO, D.F.
 PH. (525) 280-5291/5276; FAX. (525) 281-6093

ASOCIACION NACIONAL DE FABRICANTES DE CHOCOLATES, DULCES Y SIMILARES, A.C.
 (NATIONAL ASSOCIATION OF MANUFACTURERS OF CHOCOLATES, CANDY AND SIMILARS)
 MANUEL MARIA CONTRERAS NO. 133-301
 COL. CUAUHEMOC, MEXICO 06500, D.F.
 PH. (525) 5546-1259, 5546-0974; FAX. (525) 5592-2497

CAMARA NACIONAL DE INDUSTRIA PANIFICADORA Y SIMILARES (CANAINPA)
 (NATIONAL CHAMBER OF THE BAKING AND CONFECTIONARY INDUSTRY)
 DR. LICEAGA NO. 96
 COL. DOCTORES, MEXICO 06720, D.F.
 PH. (525) 5578-9277, 5578-9288; FAX. (525) 5761-8924

CAMARA NACIONAL DE LA INDUSTRIA DE TRANSFORMACION (CANACINTRA)
 (NATIONAL CHAMBER OF THE TRANSFORMATION INDUSTRY)
 SAN ANTONIO NO. 256
 COL. AMPLIACION NAPOLES
 MEXICO 03849, D.F.
 PH. (525) 5563-3400, 5563-3000; FAX. (525) 5598-9467

ASOCIACION NACIONAL DE TIENDAS DE AUTOSERVICIO Y DEPARTAMENTALES, A.C.
 (NATIONAL ASSOCIATION OF SUPERMARKETS AND DEPARTMENT STORES)
 AV. HORACIO 1855, 6TH FLOOR
 COL. CHAPULTEPEC MORALES
 11570 MEXICO, D.F.
 (525) 5580-1772; FAX. (525) 5395-2610

Tables

PS&D, Pecans, In-Shell Basis

(Hectares, Metric Tons and Trees)

PSD Table						
Country:	Mexico					
Commodity:	Pecans, In-shell Basis					
	2005		2006		2007	
	Old	New	Old	New	Old	New
Market Year Begin	10/05		10/06		10/07	
Area Planted	62809	68405	64256	71922		72393
Area Harvested	60800	64800	61500	66500		68000
Bearing Trees	3300000	3350000	3350000	3355000		3357000
Non-Bearing Trees	145000	150000	148000	158000		156000
Total Trees	3445000	3500000	3498000	3513000		3513000
Beginning Stocks	0	0	0	0		0
Production	68800	68222	69500	73504		75840
Imports	15000	6650	15000	9251		9300
TOTAL SUPPLY	83800	74872	84500	82755		85140
Exports	51800	54700	52500	53999		55000
Domestic Consumption	32000	20372	32000	28756		30140
Ending Stocks	0	0	0	0		0
TOTAL DISTRIBUTION	83800	74872	84500	82755		85140

Note: Conversion factor used from shelled to in-shell basis, 2.00

Trade Matrix

PECANS, IN SHELL			UNITS: Metric Tons		
Exports To:	2005	2006*	Imports From:	2005	2006*
U.S.	25,573	7,062	U.S.	5,099	9,173
Others unlisted	12,561	8,000	Others unlisted	0	0
Grand Total	38,133	15,062	Grand Total	5,099	9,173

PECANS, SHELLED			UNITS: Metric Tons		
Exports To:	2005	2006*	Imports From:	2005	2006*
U.S.	14,564	9,199	U.S.	1,552	78
Others not listed	2,002	1,199	Others not listed	0	0
Grand Total	16,566	10,398	Grand Total	1,552	78

SOURCE: US Trade Data from U.S. Customs

NOTE: * indicates that figures are for January thru May.

Conversion factor used is: 2 MT in-shell pecans = 1 MT shelled pecans.

Current rate of exchange: 1 U.S. Dollar = 11.05 Pesos